

FISCAL NOTE

Bill #: SB0361

Title: Interim study to prepare a sales tax to replace income tax

Primary Sponsor: Balyeat, J

Status: As Introduced

Sponsor signature

Date

David Ewer, Budget Director

Date

Fiscal Summary

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
Expenditures:		
General Fund	\$7,797	\$7,796
Revenue:		
General Fund	\$0	\$0
Net Impact on General Fund Balance:	(\$7,797)	(\$7,796)

<input type="checkbox"/> Significant Local Gov. Impact	<input checked="" type="checkbox"/> Technical Concerns
<input type="checkbox"/> Included in the Executive Budget	<input checked="" type="checkbox"/> Significant Long-Term Impacts
<input type="checkbox"/> Dedicated Revenue Form Attached	<input checked="" type="checkbox"/> Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

Legislative Services Division:

1. The Revenue and Transportation Interim Committee will design a general retail sales and use tax, and prepare draft legislation for consideration by the 60th Legislature.
2. The work will be performed in addition to other statutory duties of the Revenue and Transportation Interim Committee (RATIC) and will not supplant existing requirements.
3. The RATIC will appoint a 4-member subcommittee to conduct the bulk of the work.
4. The subcommittee will utilize staff resources of the Legislative Services and Legislative Fiscal Divisions, and the Department of Revenue. Legislative Services and Legislative Fiscal Division staff resources will be provided within existing budgets.
5. The subcommittee will meet 8 times in conjunction with regularly scheduled meetings of the full Revenue and Transportation Interim Committee.
6. Personal services costs related to subcommittee meetings will total \$2,703 over the biennium.
7. Operational costs (subcommittee travel, contracts with topic experts, mainframe CPU usage, supplies and materials) will total \$13,290 over the biennium. Due to the cyclical nature of interim committee work, the bulk of the work will be completed in the first year of the biennium. For comparison purposes, costs are presented equally in each year of the biennium.

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Department of Revenue

8. This proposal has no immediate impact on revenues administered by the Department of Revenue. The bill provides that the interim RATIC may call upon staff resources of the department to provide analysis and input to developing the sales tax proposal. Resources to do this would come from existing staff and other resources.

FISCAL IMPACT:

	FY 2006 <u>Difference</u>	FY 2007 <u>Difference</u>
<u>Expenditures:</u>		
Personal Services	\$1,352	\$1,351
Operating Expenses	<u>6,645</u>	<u>6,645</u>
TOTAL	\$7,797	\$7,796
<u>Funding of Expenditures:</u>		
General Fund (01)	\$7,797	\$7,796
<u>Revenues:</u>		
General Fund (01)	\$0	\$0
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)	(\$7,797)	(\$7,796)

LONG-RANGE IMPACTS:

By itself, this bill does not enact a sales tax. It directs the Revenue and Transportation Committee to propose a sales tax to raise the amount of revenue in 2008 that was raised by the individual income tax in either 2005 or 2006, whichever is larger. This would reduce general fund revenue in 2008 and following years by the anticipated growth of income tax revenue between 2006 and 2008, which is likely to be \$50 million to \$60 million. It also would make general fund revenue significantly more uncertain in the 2009 biennium, because estimates of revenue for a hypothetical tax are much more uncertain than estimates of revenue from an existing tax.

TECHNICAL NOTES:

1. New Section 1, subsection (2) provides that *“The rate of the proposed sales and use tax must result in an estimate of revenue from the proposed sales and use tax that equals but does not exceed the actual amount of individual income tax revenue collected for tax year 2005 or equals but does not exceed the estimated amount of individual income tax revenue to be collected for tax year 2006, whichever amount is greater.”* Because the State Constitution limits any general retail sales tax rate to no more than 4 percent, the revenue from any general retail sales tax will depend primarily on the tax base that is proposed; that is, on those items that will be taxable or exempt under the model adopted. A maximum rate of 4 percent by itself is no guarantee that revenues sufficient to fully replace individual income tax revenue would be generated. The above language could be modified to provide that the *rate and tax base* of the sales tax must result in the revenues desired.
2. The language quoted in Note 1 refers to the amount of tax revenue collected “for tax year 2005” or “for tax year 2006”. Generally speaking, revenues are not collected for a tax year. Taxpayers liabilities are established on a tax year basis, with revenues collected on a fiscal year basis. It is not clear how the

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amount of revenue collected for a tax year would be determined. On the other hand, state accounting standards and procedures provide a very precise measurement of the amount of individual income tax collected during a given fiscal year. To prevent any confusion, the above language should be amended to refer to the amount of individual income tax collected during fiscal year 2006 or during fiscal year 2007. There would be no confusion or disputing these amounts.

3. In the language quoted in Note 1, the phrase “equals but does not exceed” appears to be redundant. If the revenue to be generated must *equal* the amount currently generated by the income tax it cannot *exceed* that amount.